

INTEROFFICE MEMO  
The Upjohn Company

Subject: Restructuring U.S. Pharmacy Reimbursement  
Date: July 3, 1993  
From: PLMcKercher  
To: MJowett

The key to restructuring reimbursement to pharmacists lies in the successful negotiation with the pharmacy community regarding alternatives to the traditional ingredient cost plus dispensing fee. Ingredient costs are usually based on a discounted Average Wholesale Price (AWP).

Advantages to visiting the issue at this time are:

- I) The healthcare reform debates will precipitate legislative proposals for closer scrutiny of manufacturer pricing and possibly pricing at the retail level.

Our proposal should be crafted to address:

- a) calculation of ingredient cost at Actual Acquisition Cost (AAC), possibly with allowances for procurement or administrative costs,
- b) redefinition of classes of trade,
- c) consideration of negotiated functional, performance and quantity discounts, and
- d) retail reimbursement to include compensation for non-dispensing functions.

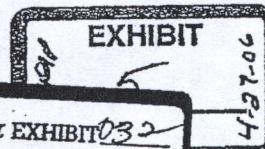
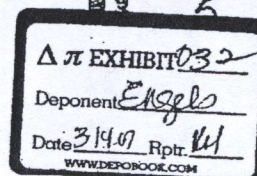
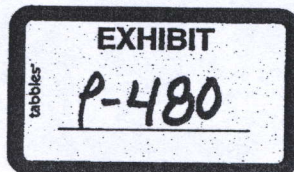
An additional reimbursement concept includes:

- e) third party reimbursement for selected OTC products. Care would have to be exercised to differentiate selected OTC reimbursement from the controversial third class or transition class of drugs.
- II) The Upjohn Company has already had some exposure to experimentation with reimbursing pharmacists for "cognitive services." It is logical, therefore, that we would continue experimentation in this area to establish our sincerity.

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- III) An aggressive, out-front proposal (attached) could shift the focus of single price initiatives to a positive posture calling for reinforcing free market dynamics in the form of negotiated functional discounts in lieu of a structure built on class of trade.

The most conspicuous downsides to proposing a restructuring of reimbursement for pharmaceuticals are:

- I) It is difficult to envision PMA endorsing or advancing any reimbursement scheme which would preserve or expand pharmacy revenues.
- II) Three decades of gaming of the present reimbursement scheme has provided a lucrative avenue of profit on the buy side of the ingredient cost. AWP based reimbursement encourages artificial AWP list prices and fixed fee reimbursement incentivises the dispensing of the least costly product.
- III) Visiting reimbursement without visiting the pricing structure of the U.S. pharmaceutical market would only infuriate our policy maker and pharmacy audiences.
- IV) Many of our own people would have a difficult time with an Upjohn position in concert with organized pharmacy. We would be asking quite a few very capable and dedicated Upjohn people to swallow the pill of compromise.
- V) Negotiations with organized pharmacy would be very difficult.

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